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RUEHNM/AMEMBASSY NIAMEY 2667
RUEHFR/AMEMBASSY PARIS 1775
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DEPT FOR AF, EB, ENERGY FOR CAROLYN GAY AND GEORGE PEARSON,
TREASURY FOR OTA, LONDON AND PARIS FOR AFRICA WATCHERS

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SUBJECT: CHAD: IMF/WORLD BANK TEAM ADMITS THAT THEY FACE A
TOUGH ASSIGNMENT

REF: NDJAMENA 611

¶1. (SBU) SUMMARY: As part of the recent agreement between the World Bank and GOC, IMF and World Bank mission officials have arrived in Chad to assist the GOC to pass and implement the 2006 Budget and push reform efforts of the country's public finance system. Mission officials also hope to explore the possibility of renewing the IMF's Poverty Reduction and Growth Facility and implement the GOC's Poverty Reduction and Strategy Paper. During their briefing to the donor community, officials noted the importance of ensuring that an efficient public finance system was in place to absorb all indirect and direct oil revenues, but pointed out that success will require a commitment from the GOC and donor community.

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IMF/WORLD BANK MISSION ARRIVES IN CHAD
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¶2. (SBU) IMF Team Leader Harry Snook, joined by fiscal and budgetary experts from the IMF and World Bank, briefed the donor community on May 15 on their planned two-week visit to Chad. Snook reviewed the recent events concerning the negotiations between the Bank and the GOC, highlighting the interim agreement that was reached between the two parties. He stressed that the agreement was interim in scope, and that the GOC and Bank needed to agree to a permanent solution for the revenue management law (Law 002). According to Snook, the IMF and World Bank technical advisors would work with the GOC to formulate a revised 2006 budget, develop a structured program for public finance reform, and commence dialogue on a long-term macroeconomic approach for poverty alleviation.

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NATIONAL BUDGET AND REFORM OF THE PUBLIC FINANCE SYSTEM IS A
TOP PRIORITY
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¶3. (SBU) Snook stated that the passage of a rectified 2006

budget would receive the greatest deal of attention from the mission, as it was the key trigger for the disbursement of the unfrozen royalty payments. In evaluating the 2006 budget, Snook said that the team hoped to examine the inclusion of priority sector spending within the budget, and to work with the GOC to define realistic spending limits on security. The team also hoped to determine the commitment levels by international donors for additional possible budgetary support.

¶4. (SBU) Snook added that the mission intended to begin the technical dialogue with GOC officials on revitalizing the donor's stalled budget modernization plan (PAMFIP). He noted that reform of the public finance system was imperative, and the GOC clearly lacked the absorptive capacity, as well as the ability, to transparently execute the national budget. Effective management would be extremely important, noted Snook, when indirect tax payments began to flow into the GOC treasury in 2007. The mission, in consultation with GOC authorities, planned to develop an operational matrix and establish a time frame to complete the reform of the 2006 budget. Mission members from the World Bank also stated that the team would look to the possibility of developing a single treasury account (combining the oil and non-oil budgets) that would simplify the budgetary process. Snook acknowledged that this process would be extremely difficult and require strong commitments from the GOC and the donor community.

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RENEWING THE PRGF
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¶5. (SBU) In reference to the mission's other priorities,

Snook said that the IMF members hoped to jump-start the review process to renew the IMF's Poverty Reduction and Growth Facility (PRGF) program with the GOC. According to Snook, a successful review was contingent upon several actions by the GOC: 1) preparations for the reform of the budgetary process, particularly with respect to the National Treasury 2) development of a strategy for medium-term spending in the priority and non-priority sectors 3) cooperation with IMF authorities in the auditing process of the country's external debt arrears. Snook stated that if the review was positive, then the program could be renewed in the next three months. Officials from the European Union and the African Development Bank added that their budgetary support, which was pegged to the IMF's PRGF program, would be dispersed at the end of the year, assuming a renewal of the program.

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DONOR'S BIG QUESTION: WHAT OF THE INDIRECT REVENUES?
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¶6. (SBU) Following Snook's briefing, donors expressed their appreciation for the arrival of the IMF and World Bank mission, and stated that reform of the public finance system required immediate reform. Officials from the European Union and French Embassy said that the indirect revenue windfall could be extremely problematic for the GOC as it lacks the capacity to absorb the revenues. One official from the European Union suggested the possibility of calling on the Consortium to limit oil production until the GOC was prepared to take in direct and indirect revenues. Snook stated that the idea was interesting, but probably not feasible, as the GOC and Consortium would probably want to continue production at highest possible level.

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COMMENT
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¶7. (SBU) The IMF and World Bank mission is an indication that the recent GOC-World Bank accord is starting to be implemented. The key now is to ensure that this dialogue on public finance reform leads to a long-term agreement between

the Bank and GOC on the overall revenue management process, and credible GOC commitment to transparency and prioritized spending for poverty reduction. The World Bank's views on dialogue with the GOC on commitments to poverty reduction will be clearer following the arrival of a separate Bank Mission, led by Senior Advisor Marie-Francoise Marie Nelly, in the coming week.

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